

November 15, 2012

CBO: FY 2012 Deficit \$1.089 Trillion

According to CBO, the federal government’s FY 2012 deficit was \$1.089 trillion (7.0% of GDP). To put this figure in perspective, prior to 2009, the highest federal deficit in U.S. history was the \$459 billion deficit in 2008. Federal spending in FY 2012 was \$3.538 trillion, which is the fourth year in a row that spending has been above the \$3 trillion mark. The federal government collected \$2.449 trillion (15.8% of GDP) in taxes, an increase of 6.4% compared to last year.

Historical Perspective on Infrastructure Spending

The President said in his famous “you didn’t build that” speech: “*When we invested in the Hoover Dam or the Golden Gate Bridge, or the Internet, sending a man to the moon -- all those things benefited everybody. And so that's the vision that I want to carry forward.*” Therefore, in examining the value to taxpayers of current federal spending aimed at this purpose—such as the “stimulus”—it may be useful to look at some past infrastructure successes of note:

| Project | Year | Cost in Today's Dollars | Federal Government as % of GDP |
|--------------------|------|-------------------------|--------------------------------|
| Panama Canal | 1914 | \$8.7 billion | 2.0% |
| Supreme Court | 1935 | \$163 million | 9.2% |
| Hoover Dam | 1936 | \$828 million | 10.5% |
| Golden Gate Bridge | 1937 | \$595 million | 8.6% |
| The “Stimulus” Act | 2009 | \$831 billion | 25.2% |

- **The Supreme Court Building:** The [Supreme Court Building](#) opened in 1935. \$9.74 million was appropriated by Congress for the project, but it was completed under-budget, with \$94,000 returned to the Treasury. The American Institute of Architects has ranked this building 15th on a list of the public’s favorite buildings and other architectural structures. In today’s dollars, the cost of this project would amount to **\$163 million**. For that price of \$163 million, the **\$831 billion “Stimulus”** could have been used to build similar courthouses in all 3,141 counties in America, and there would still have been \$319 billion leftover to return to the Treasury.
- **The Golden Gate Bridge:** The Golden Gate Bridge is celebrating its 75th anniversary. It is considered one of the [Seven Wonders of the Modern World](#) by the American Society of Civil Engineers (ASCE). The Golden Gate Bridge cost \$37 million, which is **\$595 million** after adjusting for inflation. That is a little over one-third the amount of money the federal government spent on maintaining unused or underused buildings in 2010 (\$1.7 billion, *source:* [Heritage Foundation report](#)). For that price of \$595 million, the **\$831 billion “Stimulus”** could have been used to build 28 similar bridges in each of the 50 states.
- **The Panama Canal:** The Panama Canal opened in 1914. The project cost Americans approximately \$375 million. In today’s dollars, the cost of the project would amount to **\$8.7 billion**. That price(after adjusting for inflation) is a little over half what the federal government will spend on the [New Starts and Small Starts](#) programs providing grants to local transit projects over the next decade (\$16.3 billion, *source:* [Heritage Foundation report](#)). It is also just over one percent the cost of the **\$831 billion “Stimulus.”**
- **The Hoover Dam:** the Hoover Dam was authorized by Congress in 1928. It took less than five years to build, and was open by 1936. The project cost Americans \$50 million to construct, which is **\$828 million** after adjusting for inflation. Over the last decade, federally-subsidized **Amtrak** has lost **\$833 million** from selling food and drinks to captive customers on its trains (*source:* [Heritage Foundation report](#), [Washington Examiner story](#)). For the Hoover Dam’s inflation-adjusted price of \$828 million, the **\$831 billion “Stimulus”** would have been able to build 1,000 similar projects—20 for every state.

Quote of the Week: “One of the real enduring puzzles of American public policy is why our infrastructure costs are so high by international standards.”

--Matt Yglesias, Slate blog post “[America’s Sky-High Infrastructure Costs.](#)”





The President's Tax Math Wall Street Journal Editorial

'You know, the math tends not to work," declared President Obama at his Wednesday press conference, as part of his explanation for why closing tax loopholes for the wealthy wouldn't provide enough revenue for a budget deal. Ergo, he says, tax rates must go up immediately for those making more than \$250,000 a year, even if this means sending the economy over the January 2013 tax cliff.

The President must be getting bad advice because his math is mistaken in two ways. He's wrong on the revenue arithmetic of limiting deductions, and he's also wrong in claiming that raising tax rates as he proposes would do much better.

Regarding deductions, we refer readers to an October 17 study, in which even the liberal economists at the Tax Policy Center report that capping all itemized deductions at \$50,000 a year for each tax filer under current policy would yield \$749 billion in extra revenue from 2013-2022.

Reducing the annual deduction cap to \$25,000 would raise an additional \$1.286 trillion over 10 years. Lower the cap still further to \$17,000, as Mitt Romney once suggested during the campaign, and the revenue increase soars to \$1.747 trillion by 2022. Our preference is that Republicans hold out to use this revenue to finance a *reduction* in tax rates as part of a larger tax reform, but similar math applies in any case.

It's important to note that these revenue estimates are based on static analysis, a Tax Policy Center specialty that doesn't consider changes in behavior. But then that's the same kind of static analysis that Mr. Obama is insisting on. It's important to note as well that these estimates apply to capping the itemized deductions of all taxpayers, not merely those who make more than \$250,000.

But the liberal class warriors at the Tax Policy Center also did the math for the distribution tables for this deduction cap when they were trying to defeat Mr. Romney. And, lo, they found that the top quintile of income earners would pay 96.2% of the higher taxes if deductions were capped at \$50,000. The top 1% of earners would pay 79.9% of the higher tax revenue from capping deductions, and the top 0.1% would pay no less than 48.4%.

In other words, the rich would still be soaked and the middle class would largely be spared. Is that enough tax fairness for you, Mr. President?

As for Mr. Obama's implication that higher tax *rates* will bring a revenue windfall, he is simply being disingenuous. The Joint Tax Committee's budget score of Mr. Obama's proposal to raise taxes on capital gains, dividends, and income above \$200,000 while reinstating the PEP and Pease deduction phase-outs yields merely \$823 billion over 10 years.

That's barely more than the \$749 billion from capping deductions at \$50,000 a year. And at an annual average of \$82 billion a year in revenue, it's merely 7.5% of last year's \$1.1 trillion federal budget deficit. And that's assuming no negative impact on revenues from slower economic growth due to higher tax rates on savings and investment. To borrow a phrase, "the math tends not to work."

All of which makes us wonder why Mr. Obama is so insistent on raising tax rates now, even if he can get nearly the same amount of revenue from reducing deductions. Here's one guess: He really doesn't care if there's a budget deal this year that avoids the tax cliff.

By taking an absolutist line, he's basically gambling that Republicans will be more reasonable than he is and will blink. But if they don't blink and we go over the cliff, from his point of view so what? Mr. Obama then has an excuse to blame Republicans if there's another recession. Meanwhile, he pockets the higher tax rates that take effect on January 1 anyway, and he can then negotiate a budget deal next year without having to make any tax concessions.

He pleases his left wing for which higher tax rates are a secular religion, while pinning one more defeat on Republicans. Lest you think this is a conservative fantasy, it's more or less the tax cliff strategy that Democratic Senator Patty Murray of Washington advocated on Sunday on ABC's "This Week" and that labor leaders lobbied for at the White House on Tuesday.

All of this also fits with Mr. Obama's latest line that any budget deal must raise taxes by \$1.6 trillion, which is \$800 billion more than he had privately agreed to with House Speaker John Boehner last year. It also fits with Mr. Obama's press conference remarks Wednesday in which he held out the vague promise of tax and entitlement reforms next year but pressed for immediate tax and spending increases *this year*. He's backing GOP leaders into a position they can't accept without a backbench revolt.

Meanwhile, in the real world, stocks took another dive on the President's remarks. The Dow fell 185 points, and it is now down 674 or 5% since Mr. Obama's re-election. The President is playing a game of political chicken with the economy.